

# TAC Structure Enhancements Draft Final Proposal

## Comments by Department of Market Monitoring

October 11, 2018

DMM appreciates the opportunity to comment on the ISO's *TAC Structure Enhancements Draft Final Proposal*.<sup>1</sup>

The ISO's Draft Final Proposal remains largely unchanged from its Revised Straw Proposal. The main changes in the Draft Final Proposal include using historic coincident peak demand data to calculate demand-based High Voltage Transmission Revenue Requirement (HV-TRR) rates and phasing implementation of the hybrid billing approach over a two year period.

DMM appreciates the ISO working closely with stakeholders throughout this process and appreciates the ISO's direct responses to DMM's past comments. DMM supports the ISO's TAC Enhancements proposal as an improvement over the current TAC structure. DMM also supports details of the ISO's proposal including using a 12 coincident peak approach to set high voltage TAC rates and modifying the Wheeling Access Charge (WAC) rate structure to treat non-PTO and PTO entities similarly under the hybrid billing determinant proposal, as detailed in prior comments.<sup>2</sup>

DMM continues to support the ISO's proposed hybrid approach for assessing high voltage TAC charges as an improvement over the purely volumetric approach used today. A demand-based billing determinant better aligns transmission cost allocation with the current use of the transmission system. Additionally, departing from a purely volumetric TAC billing determinant could mitigate the impact that a volumetric TAC rate has on the willingness of load and exports to pay for spot market energy (and thus the impact that fixed transmission costs could have on spot market prices).

While a hybrid approach is an improvement over the existing TAC structure, maintaining a volumetric billing determinant does not completely eliminate spot market inefficiencies introduced when TAC charges are assessed on a per-MWh basis. DMM described these inefficiencies in prior comments, and has noted that removing such inefficiencies may become increasingly relevant as load becomes more capable of responding to wholesale price signals.<sup>3</sup>

---

<sup>1</sup> *Transmission Access Charge Structure Enhancements Draft Final Proposal*, California ISO, September 17, 2018: <http://www.caiso.com/Documents/DraftFinalProposal-TransmissionAccessChargeStructureEnhancements.pdf>

<sup>2</sup> *DMM Comments on Review TAC Structure Straw Proposal*, DMM, March 19, 2018, p. 3-4: <http://www.caiso.com/Documents/DMMComments-ReviewTransmissionAccessChargeStructure-StrawProposal.pdf>

<sup>3</sup> *DMM Comments on Review TAC Structure Issue Paper*, Department of Market Monitoring, July 27, 2017: <http://www.caiso.com/Documents/DMMComments-ReviewTransmissionAccessChargeStructure-IssuePaper.pdf>

The ISO has communicated that the scope of this initiative is to improve allocation of embedded costs of the *existing* transmission system. But the ISO states it is willing to revisit the point of measurement issue for future transmission facilities.<sup>4</sup> A fully demand-based billing determinant, coupled with a change in the TAC point of measurement, could potentially improve the ISO's proposed hybrid approach for allocating costs of future transmission facilities. This approach could prevent volumetric TAC charges from impacting spot market efficiency and better reflect the contribution of behind-the-meter resources to reducing future transmission buildout and associated costs.

DMM recognizes that the point of measurement issue is but one aspect of the complex process of LSEs, resource owners, the ISO, and local regulatory authorities determining the optimal mix of future construction of new generation and transmission facilities. Therefore, DMM encourages the ISO to commit to working with the CPUC and other stakeholders on enhancing the wholesale and retail methods for allocating the fixed costs of new generation and transmission assets. These allocation methods, including the point of measurement used for the allocation of the fixed costs of new transmission assets, may significantly impact the location and type of future generation and transmission facilities.

In subsequent reviews of the ISO's TAC structure, DMM would also encourage the ISO to evaluate additional TAC structure issues raised in prior comments:

- The inefficiency of a volumetric TAC or WAC also applies to export and wheeling transactions; the ISO should evaluate alternative billing determinants for exports and wheeling transactions
- The ISO should consider developing a process through which any entity that may have an obligation to deliver energy across the ISO transmission system could pre-pay TAC and participate in the CRR allocation process.<sup>5</sup>

---

<sup>4</sup> *Transmission Access Charge Structure Enhancements Draft Final Proposal*, California ISO, September 17, 2018, p. 4.

<sup>5</sup> *DMM Comments on Review TAC Structure Straw Proposal*, DMM, March 19, 2018, p. 6-7.